Exhibit E-7

Overview of New PREMERA Operations and Strategy and Rationale for Conversion

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INTRODUCTION

Premera[1] is committed to providing competitive, market-responsive health benefit coverage delivered with a high level of customer service as an independent, local health plan. Its ability to successfully execute this strategy has distinguished Premera as a leading health plan in its region. Accordingly, Premera and its Board of Directors[2] continuously analyze how to best position the company to serve Premera's customers into the future while at the same time, meet regulatory reserve requirements to support its growing revenue and membership base. The Board of Directors has concluded that in order to most effectively reach that goal, the company should have access to the equity capital markets. As a result, Premera has announced its desire to reorganize from nonprofit status to for-profit status as a preliminary step to accessing the equity capital markets.

This document is intended to provide the reader with an understanding of the circumstances surrounding Premera's decision to pursue a reorganization to for-profit status. The document is organized into the following sections:

- *Overview of Operations and Strategy*. This section provides a description of the operations and the current and future strategic direction of Premera. The company intends to pursue its strategy regardless of whether it is a nonprofit or for-profit company.
- *Why Does Premera Want to Convert?* This section provides an overview of the factors that were considered in Premera's decision to pursue a reorganization to for-profit status including a description of the capital needs Premera anticipates and a review of its capital options.
- *Why is this Good for Our Customers and the Health Care Delivery System?* This section provides insight into how Premera's conversion positively impacts Premera's customers, the citizens of Washington and Alaska and the entire health care delivery system.

[1] The Premera family of companies ("Premera") includes PREMERA, Premera Blue Cross, and other entities as outlined in section I.B—"Organizational Overview".

[2] For the purposes of this document, references to the "Board of Directors" include the appropriate governing boards of directors of the applicable Premera companies.

- *Premera Combined Financial Projections and Assumptions.* This section provides an indication of the financial outcomes that Premera expects over the upcoming five-year period as well as the assumptions on which those projections are based.

I. OVERVIEW OF OPERATIONS AND STRATEGY

A. Background and Key Company Events

Present day Premera was created through the affiliation and eventual merger of two independent Blue plans in Western and Eastern Washington. Blue Cross of Washington and Alaska, the predecessor company to Premera Blue Cross, was registered as a health care service contractor in May 1945. It began selling health care coverage in Washington State in 1948 and in Alaska in 1957. In 1994, Blue Cross of Washington and Alaska affiliated with Medical Services Corporation of Eastern Washington ("MSC"), the Blue Shield plan based in Spokane, which had been serving Eastern Washington since 1933. At that time, PREMERA was formed as the upstream holding company of Blue Cross of Washington and Alaska and MSC. In 1998, MSC and Blue Cross of Washington merged, and the name officially was changed to Premera Blue Cross. PREMERA remains the sole voting member of Premera Blue Cross.

PREMERA and Premera Blue Cross are licensees of the Blue Cross Blue Shield Association ("BCBSA"). Through that license, Premera Blue Cross operates in Washington using the Blue Cross and Blue Shield trademarks (see Section I.B. "Organizational Overview" for more specifics on the Blue licensed service areas in Washington). It operates in Alaska under the name Premera Blue Cross Blue Shield of Alaska.

The PREMERA family of companies also provides health care coverages, benefit administration and life insurance coverages through entities that are not licensed to use the Blue marks or names. For example, LifeWise Health Plan of Oregon has been a member of the PREMERA family since 1994. Premera also recently announced plans to expand services to Arizona through an affiliate to be known as LifeWise Health Plan of Arizona.

Through its various affiliates, Premera currently provides health care coverage and administrative services to over 1.4 million customers throughout Washington, Oregon and Alaska through a wide range of health benefit products, including traditional indemnity, PPO, point-of-service, managed care, Medicare Supplement and individual plans. Premera Blue Cross has recently launched its Dimensions product in Washington. Dimensions is a product, network and systems platform that was the result of a multi-year process and system transformation. The new Dimensions product allows customers to customize benefit coverage, networks and care facilitation services to meet their specific health benefit needs.

In addition to the health care coverage plans, Premera includes these other affiliated lines of business:

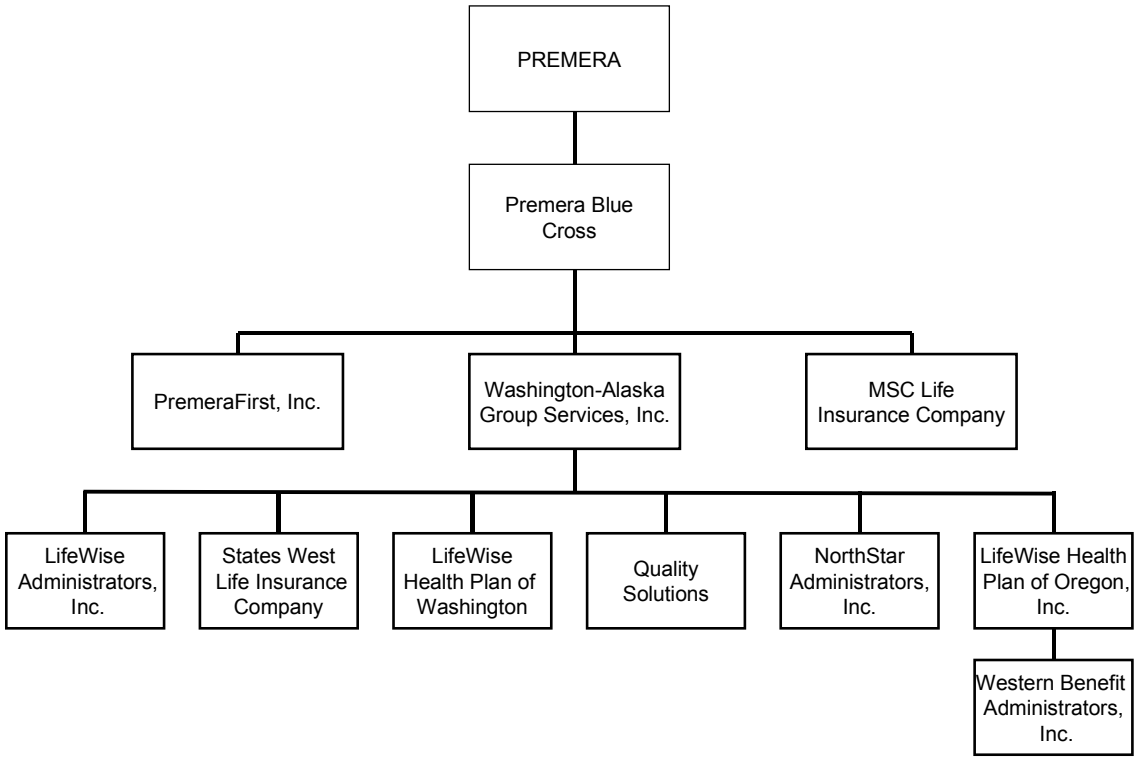
- States West Life Insurance - a regional life and disability insurer;
- NorthStar Administrators – a third-party benefits administrator; and
- Quality Solutions – a claims investigation and recovery firm.

Not only does Premera play an important role in the health care delivery system, but it also is a major contributor to its local and state economies. In 2001, Premera paid nearly $36 million in premium taxes to the states where it operates. Furthermore, Premera is a significant employer to the communities it serves, employing nearly 3,000 people throughout its service area.

B. Organizational Overview

Exhibit 1 below illustrates the current organizational structure of the PREMERA companies. Descriptions of each entity follow the illustration.

Exhibit 1: The PREMERA Companies Organizational Structure



PREMERA is a Washington, nonprofit corporation created in 1994 under RCW 24.06. PREMERA is the upstream parent company and the sole voting member of Premera Blue Cross.

Premera Blue Cross ("PBC") is a Washington nonprofit corporation incorporated under RCW 24.03. PBC was formerly known as Blue Cross of Washington and Alaska ("BCWA") and is the legal successor to the merger of Medical Services Corporation of Eastern Washington into BCWA. PBC is registered as a health care service contractor (health carrier) under Washington law and is a hospital and medical services corporation in Alaska. PBC is licensed by the Blue

Cross Blue Shield Association as the exclusive licensee of the Blue Cross mark and name throughout Washington (with the exception of Clark County, where usage is limited by BCBSA rules). It is also the exclusive licensee of the Blue Shield mark throughout most counties in Eastern Washington. Premera Blue Cross is also the exclusive licensee of the Blue Cross and Blue Shield name and mark in Alaska, where it operates as Premera Blue Cross Blue Shield of Alaska. PBC maintains offices in Mountlake Terrace, Spokane and Anchorage.

PremeraFirst, Inc. ("PremeraFirst") is a Washington, for-profit corporation utilized primarily to act as an agent to contract with providers on behalf of several of the Premera companies. The sole stockholder of PremeraFirst is PBC.

Washington-Alaska Group Services, Inc. ("WAGS") is a Washington, for-profit corporation licensed as an insurance sales agency in Washington, Alaska, Idaho, and Oregon. The sole stockholder of WAGS is PBC.

MSC Life Insurance Company ("MSC Life") is a Washington, for-profit company authorized to transact the business of life and disability insurance in the state of Washington. PBC is the sole stockholder of MSC Life. Premera recently announced its plans to offer heath insurance products in Arizona through MSC Life, which will transact business as LifeWise Health Plan of Arizona.

LifeWise Administrators, Inc. is a Washington, for-profit corporation providing consolidated billing and collection services to PBC and affiliates. WAGS owns 100% of the voting securities of LifeWise Administrators, Inc.

States West Life Insurance Company ("SWL") is a Washington, for-profit corporation licensed to sell life and disability insurance in Alaska, Arizona, California, Idaho, Montana, New

Mexico, North Dakota, Oregon, Utah, Washington, and Wyoming. WAGS is the sole stockholder of SWL.

LifeWise Health Plan of Washington ("LifeWise Washington") is a Washington, nonprofit corporation incorporated under RCW 24.06. It is a registered health care service contractor, offering health coverage in Clark County, Washington. In addition, it offers individual health care benefit plans throughout Washington. WAGS owns 100% of the membership interests of PLW.

Quality Solutions is a Washington, nonprofit corporation organized under RCW 24.06. Quality Solutions provides investigation and recovery services (e.g., subrogation and coordination of benefits) to health plans and self-funded employer benefit plans.

NorthStar Administrators, Inc. ("NorthStar") is a Washington, for-profit corporation which primarily provides third-party administrative (TPA) services to group benefit plans. NorthStar conducts its business primarily in Washington, Alaska and Oregon. WAGS is the sole stockholder of NorthStar.

LifeWise Health Plan of Oregon, Inc. ("LifeWise Oregon") is an Oregon, for-profit stock insurance company licensed to transact the business of life and health insurance in Oregon and Idaho. LifeWise Oregon is headquartered in Portland and also has offices in Bend. WAGS is the sole stockholder of LifeWise Oregon.

Western Benefits Administrators, Inc. ("WBA") is an Oregon, for-profit corporation organized for the primary purpose of administering health benefits for self-insured employers. WBA is currently inactive. LifeWise Health Plan of Oregon is the sole stockholder of WBA.

C. Premera's Mission, Vision and Strategy

Defining the Corporate Mission, Vision and Strategy

In the late 1990s, Premera's Board of Directors and management team reset its strategic objectives and refined its corporate mission, vision and strategy to focus on most effectively serving its customers. During that process, Premera dedicated itself to its current mission: "To provide peace of mind to its members about their health care coverage." Accompanying that mission is the Premera's vision "to be the health plan of choice and the standard of excellence in our Region." The Board of Directors has determined that this mission and vision can be best achieved as an independent, Washington-based company.

By 2000, Premera successfully turned around its customer service delivery and financial performance and has distinguished itself in the marketplace through its outstanding customer service, financial and membership growth.

Also in 2000, Premera reassessed its markets to determine how best to meet the changing demands of its customers in the future. As a result, Premera launched a major initiative to redesign its entire delivery model, product portfolio, care facilitation approach and systems infrastructure to better enable Premera's response to customer needs. This transformation led to the launch of the Dimensions product and delivery platform in Washington in June 2001. In the short time since its rollout, Dimensions has had dramatic success in the marketplace. Based on Premera's longstanding commitment to customer service, coupled with the launch of Dimensions, it will continue to distinguish itself from its competitors.

Premera's mission and vision form the foundation for Premera's corporate strategy. It is the dedication to this mission and vision that drives the successful execution of this strategy which in turn, has allowed Premera to differentiate itself from the other plans in its markets. In fact, much

of Premera's success is due to its ability to meet the needs of the market through its products and commitment to service.

Premera sees further opportunities to develop its products and processes, thereby facilitating more efficient and greater access to care. This is achieved by creating choice for consumers, by improving the delivery of care through reducing the administrative complexities often associated with health insurance and by using data-driven systems to provide physicians and their patients with valuable information to facilitate better care. Changes in care based on this information help control the escalating cost of health benefits. Furthermore, Premera places a priority on the value of relationships, fostered by open dialogue, responsiveness and accountability to its members and customers, physicians, other health care providers, brokers and its community. This relationship-driven approach is enhanced by being an independent, local company.

Premera's strategy is built around the following concepts:

Create Choice.

The most effective way to develop a product that meets the needs of a specific customer is to provide a way for that customer to customize its own plan from a variety of options. To that end, Premera has initiated a multi-year systems, service and product transformation that will move it away from an insurer's traditional role as a "middleman" acting as a fiscal intermediary between the physician and patient to one as "facilitator of customer choice." The new product design and systems infrastructure provides the information necessary for customers to make more informed decisions about purchasing their coverage. In addition to the flexibility offered by providing the choice of benefit design, network size and level of care facilitation, Premera's new systems also bring the technology needed to support and service each customer at the highest level. This product transformation also provides customers with information to make choices based on physician quality and cost by introducing tiers of physicians that are established based on their history of delivering efficient care. Accordingly, customers can select their

desired configuration of benefits, with their desired network configuration to best match their health benefit needs and cost parameters.

Provide Superior Service.

Premera is dedicated to providing the highest level of service and seeks to deliver value to its customers through convenience, choice and flexibility. One way Premera maintains a high level of service is by effectively locating the core functions of the health plan's operations. For example, Premera's sales, provider contracting, care facilitation and customer service functions are housed locally in each major market to provide the high level of service that requires close customer contact. Furthermore, a local presence provides a better understanding of the local market dynamics allowing Premera to be more responsive to our customers and business partners. Other services that favor consistency and continuity (rate setting, information processing and claims payment, for example) are carried out in centralized groups.

Premera's ability to deliver service is also enhanced by maintaining a culture of well-trained, appropriately selected professionals committed to delivering service excellence. With this foundation in place, the technological and other investments Premera makes are made more effective.

Build Strong Working Relationships.

Premera is committed to developing and maintaining positive, constructive and responsive relationships with others in the health care and health insurance system as well as the communities where it operates. This includes employer groups, customers, brokers, physicians and other care providers, as well as government officials responsible for regulating the business. Examples of this include Premera's proactive participation in the Network Advisory Group and Administrative Simplification Work Group of the Washington Healthcare Forum. These two groups consist of local market providers and health plans, each identifying areas for improvement and devising joint solutions to common problems. Premera has also created the Clinic Advisory Board to open a

dialogue between clinic leaders and Premera. In addition to the work directed toward the physician community, Premera has also developed a number of programs aimed at strengthening its relationships with the broker community. Examples of these efforts include informational and educational "road shows" led by Premera employees, sponsorship of continuing education programs and an overall commitment to a responsive and open exchange of information. In the regulatory and legislative arena, Premera has worked closely with state officials to address common objectives, including the revival of the individual insurance market.

Premera also continues its commitment to the community through its Premera CARES program and through a wide variety of other community sponsorships. The Premera CARES program supports nonprofit organizations and programs throughout Premera's service areas that address prevention and treatment of major diseases and health conditions. Activities for 2002 address diabetes, cancer, children's health and low-income health care. Premera has also funded a significant endowment known as the MSC Health and Wellness Fund Endowment, to support health initiatives in Eastern Washington. The $600,000 fund has been used to support initiatives such as the Intercollegiate College of Nursing/Washington State University College and the People's Clinic of Spokane. In addition to monetary contributions, Premera associates volunteer thousands of hours each year to community service projects.

Facilitate Care.

Premera respects the physician-patient relationship and at the same time, recognizes that health insurers play a significant role in the health care system because of the large amount of data maintained by health plans. There are many ways that Premera analyzes and shares this information with physicians to help define quality outcomes and identify areas where other improvements to care can be made. Results of this type of data management at Premera are seen through Episode Treatment Grouper reporting, Premera-sponsored disease management, utilization review and case management programs. Current disease management initiatives are aimed at identifying and

proactively monitoring and providing early intervention to patients with certain diseases. Specific programs geared toward diabetes, kidney disease and oncology are in use today, with further expansion to potentially include smoking cessation, asthma, heart disease and depression. Other health awareness programs, such as immunizations, health screenings and health fairs, coupled with information available through the Premera web page and other newsletters, also serve to promote the health of the member community.

In addition to the interaction with physicians and hospitals, Premera has developed a polypharmacy program and has recently implemented the ePocrates Rx Formulary™ that enables Premera to distribute its formulary information to physicians through hand-held technology. Premera also continues to work closely with its pharmacy benefit management company to find other ways to better control costs and increase patient safety while improving the level of service to its members.

Maintain and Develop an Excellent Workforce.

Success an organization has in achieving its goals and objectives is directly related to the people that are chosen to carry out its mission while upholding the corporate values. Premera's corporate values include service excellence, customer care, leadership, integrity and teamwork. Accordingly, Premera makes investments in its people by hiring and retaining associates that embody Premera's values and are dedicated to helping Premera provide excellent health benefit services.

Premera seeks to develop its associates' leadership capabilities through management training, educational opportunities and challenging work assignments. In addition, Premera seeks to be an attractive place for people to work by offering stimulating and challenging work, as well as opportunities for development and growth. Premera's commitment to its associates is evidenced by the "Preferred Employer" designation awarded in the 2001 *Washington CEO* "Best Companies to Work For" survey, and its rating of "Preferred Employer" by Watson Wyatt in its 2002 survey of Premera associates.

D. Products and Services

Insured and Self-funded Products

Premera offers a wide range of insured and self-funded products including PPO, POS, indemnity products and Medicare supplement products. Its products are designed to meet the needs and objectives of a wide range of customers, including employers, insurance purchasing associations, individuals and government entities. Our customers either contract with us to assume underwriting risk or self-fund underwriting risk and rely on us for network management and administrative services. Our products vary with respect to the level of benefits provided, and the costs to be paid by employers and members, including deductibles and co-payments.

Premera has recently launched a new product in Washington known as Dimensions. The Dimensions product allows purchasers to create a customized plan design that best fits their needs. Purchasers are able to choose the type of benefit design, network size and level of care facilitation meeting their specific needs. While this product allows for more choices for customization than the standard HMO, PPO and POS product types, these standard types of plans can be replicated under the Dimensions model should a purchaser choose.

The Dimensions product is currently offered in Washington and will be available in other markets as its rollout continues through 2004.

Premera offers both Blue-branded and non-Blue branded products depending on the service area and as governed by the license agreement with the BCBSA. An overview of Premera's brand identities are outlined in Exhibit 2 below:

Exhibit 2: Premera Health Coverage Product Brands by Service Area

Service Area	Blue Branded	Non-Blue Branded
Western Washington[(a)]	Premera Blue Cross	LifeWise of Washington
Eastern Washington	Premera Blue Cross and Blue Shield	LifeWise of Washington
Alaska	Premera Blue Cross and Blue Shield of Alaska	None
Oregon	None	LifeWise of Oregon
Arizona	None	LifeWise of Arizona

(a) Premera does not provide Blue Cross branded products in Clark County, Washington, except to the extent permitted under BCBSA rules.

Premera Blue Cross also participates in the BlueCard program, a national network of Blue Cross and Blue Shield plans. The BlueCard program permits members of Blue Cross and Blue Shield branded health plans to receive health care services from providers in the networks of other Blue Cross and Blue Shield plans. This allows Premera Blue Cross to compete with national health insurers for groups with employees outside Premera's current service area. This also allows members to access care while away from home. Through electronic communications, the "host" plan verifies eligibility, pays the claim based on its local fee arrangement and is then reimbursed by the "home" plan for the claim as well as an administrative fee.

The BlueCard program allows Premera Blue Cross to compete with national insurers for service of large accounts headquartered in its Washington and Alaska service areas. Through Dimensions, supported by the BlueCard program, Premera has demonstrated its ability to compete with the largest national insurers based outside of Washington.

Other Insurance Products and Services

In addition to its insured and self-funded products, Premera provides a number of specialty insurance products and services:

- *Dental Insurance.* Premera offers various dental plans that provide an array of benefit options and coverage including diagnostic, preventive, general and specialty dental care.

- *Long Term Care Insurance.* Premera offers long term care insurance in Washington. Long term care insurance provides coverage for medical and other services to patients who need constant care in their own home or in a long term care facility. Premera offers three different products that offer cost and coverage options allowing the purchaser to best choose what fits their needs.

- *Life and Disability Insurance.* Premera's life insurance subsidiary, States West Life, is licensed to provide life and disability benefits in 11 Western states. Its products include:
  - Group life insurance - provides benefits to a beneficiary in the event of a member's death;
  - Accidental death and dismemberment - provides benefits in the event of accidental death or dismemberment;
  - Dependent life - provides benefits to the member in the event of dependent's death;
  - Short- and long-term disability income insurance - provides benefits for income replacement in the event member is unable to work due to an illness or injury;
  - Voluntary products – provides additional payroll deduction benefit options for members covered by group life insurance; and
  - Medical stop-loss - provides employer reinsurance for self-funded medical plans.

- *Premera Extras!* The Premera Extras! program allows its members the chance to receive special savings on a variety of health-related products and services by presenting their Premera ID card. Such discounts include savings on eyeglasses, hearing aids and bicycle helmets.

II. WHY DOES PREMERA WANT TO CONVERT?

A. Introduction

Premera has announced its desire to reorganize from nonprofit status to for-profit status as a preliminary step to accessing the equity capital markets. Each year, Premera makes significant capital investments in many areas that support its market-based strategy. As a nonprofit company, Premera is limited in the ways it can fund these investments. Converting to for-profit status would create access to capital through the equity markets. Premera believes that access to equity capital will enhance its ability to serve its customers by ensuring its ability to make the investments necessary to maintain its service focus and to further improve its products and processes. Increased capital is also necessary to meet regulatory reserve requirements to support a growing revenue and membership base. Such growth benefits current and future members by creating economies of scale by spreading administrative costs over a broader base. The reasons for seeking additional capital through conversion are better understood by reviewing the spectrum of investment requirements facing Premera today, as well as the capital reserve requirements under state law. The following sections also outline capital alternatives that are available to Premera before and after a conversion.

B. Overview of Capital Requirements

Competition in the health insurance industry is intense. The Washington, Alaska and Oregon markets feature a variety of competitors, including both national and local plans, for-profit and nonprofit plans. Premera, like all health plans, faces the difficult task of creating a product that reflects current market standards and customer expectations at a competitive price. This is best achieved by developing new products that allow greater choice and enhancing services. All of this must be done in a way that allows Premera to meet statutory reserve requirements and support the company's financial stability.

The amount of investment that is required to accomplish these objectives is significant. In a November 2001 survey conducted by Accenture (an international consulting firm), it is estimated

that the amount of expenditures needed by the average health plan with revenues over $500 million could be between $90 and $190 million over the next three to five years, excluding capital spent for acquisition activity.

The examples below illustrate some of the current and future investments facing health plans wishing to offer competitive products and services. In addition, examples of the types of initiatives Premera has funded to address these requirements are outlined below.

Technology and Infrastructure

Many health plans are investing in technology to better serve their customers. This technology is used to simplify administrative processes, to utilize the internet to conduct routine processes and to enhance the core business functions of the health plan. These initiatives are discussed in more detail below:

- **Administrative Simplification.** As the health care system continues to evolve, the administration of health benefits has become more complex, which has led to increased costs and frustration for all parties involved. As a result, health plans are focusing on ways to improve their administrative processes. Developments in electronic data interchange, improved claims processing and improved communications will allow physicians and other care providers to focus on patient care, rather than filing and processing paperwork.

- **e-Business Functionality.** The advent of the internet has created opportunities for health plans to offer improved service and administrative capabilities for their customers. This functionality is increasingly becoming a critical factor in a health plan's ability to appropriately serve its customers and its business partners. Through internet-based systems, members can access up-to-date information for submitting and tracking claims and receive other information about their benefits. Additionally, employer groups' account administration functions are enhanced through more streamlined processes and reductions in paperwork. Brokers can also benefit from the plan's ability to provide rate

quotes in a more timely fashion. Physicians and other providers can easily check patient eligibility and submit claims.

- **Development of Core Functions.** Investments are also being made to improve the core health insurance functions—paying claims, determining eligibility and providing customer service to groups, members, physicians and other care providers. Health plans are also uniquely positioned in the health care system to effectively capture and manage utilization data. Improved data warehousing capabilities can provide valuable information to better understand health care cost trends, develop pricing and underwriting strategies and initiate product-design initiatives. Disease management, case management and utilization review programs are supported and enhanced through these investments.

While new technology has the potential to create impressive results, development and system infrastructure costs can be significant.

Premera sees technology as a way to improve service for its customers, create administrative efficiency and more effectively manage data. As a result, Premera is actively implementing technology initiatives throughout its organization. This commitment is most evident in the company's ongoing system transformation from multiple legacy systems to a single state-of-the-art systems platform. This new system in connection with investments made in optical character recognition, imaging systems and call center enhancements will empower Premera's employees to more efficiently and effectively serve its customers, allowing faster and more complete responses to inquiries.

Internet technology is also being used to improve service levels for those that do business with Premera. This technology allows significant reductions in time and paperwork relating to administration of health benefits. Examples of how this technology impacts our members and business partners include:

- Members are provided with greater access to information about their benefits. Many of the most frequent tasks are automated, including searching for and checking the

status of claims, reviewing benefit coverage information and updating personal information.

- Employers and benefit administrators can conduct a number of administrative tasks through web-based interfaces, simplifying time and paper-intensive processes.
- Brokers can request and receive small group quotes for certain products online and the enrollment process is now automated through a web-based interface.
- Physicians can check eligibility, search for procedure and diagnosis codes and request and view benefit advisories. Future releases will allow physicians to submit and review claims online.

In addition to Premera specific initiatives, the company also participates in the Network Advisory Group and Administrative Simplification Work Group of the Washington Health Care Forum. These groups consist of local market providers and health plans, each working together to identify areas to use technology to simplify common processes and devise joint solutions to problems.

As new technology continues to be developed, Premera will continue to seek additional ways to use technology to improve its service and capabilities.

Product Development

A plan's ability to compete also extends to the type of products that it places in the market. In today's marketplace, members and employers desire increased choice in their benefit plans. Current examples of new product designs include defined benefit and medical savings account products, as well as Premera's Dimensions product. Over the last two years, Premera has invested significant time and resources developing Dimensions—a new suite of products and services aimed at increasing customer choice, simplifying customers' interactions with Premera, and providing better information for members and doctors to make more informed health decisions. Supporting the Dimensions product platform is a state-of-the-art systems infrastructure that will allow Premera to operate more efficiently while providing higher levels of

service for our customers. While the rollout of the Dimensions has begun, Premera will continue to realize costs not only in support of its current products but also as it continues to refine and develop its products to meet the changing market needs. While these are current examples of new product innovations, it is expected that in the future, continued investment will be required to meet the need for further product innovations.

In addition to benefit design, Premera is also committed to the development of a customer-focused care facilitation approach that combines case management, disease management and jointly-sponsored programs with physicians to enable high quality and cost-effective care. In order to develop these programs, significant amounts of research, planning and development must occur. Once a program is developed, systems must be implemented to effectively support the new program.

Benefit designs will continue to change in the future. Premera will continue to make the necessary investments to provide the state-of-the-art product designs as necessary to meet the demands of its customers.

Growth

Premera has developed its system infrastructure to accommodate membership in excess of its current levels. Accordingly, it is important that Premera continues its growth in membership to realize opportunities for economies of scale, allowing the company to spread investment costs over a larger base of customers.

Premera has experienced and anticipates significant organic growth in the future. In order to foster and support such growth, significant capital is needed to develop new products, enhance service and launch sales and marketing efforts. While Premera is not actively pursuing a growth by acquisition strategy, it carefully considers acquisition opportunities as they are presented. In the case that it was determined that an acquisition was a strategic fit, cash or stock consideration could be used to fund the purchase price of a transaction.

Another demand for capital related to growth is the funding of statutory reserves. Under state law, health carriers must maintain statutory reserves in accordance with requirements known as Risk-Based Capital ("RBC") requirements. These requirements are based on a formula specified by insurance regulatory authorities. This formula sets the amount of risk-based capital that must be reserved depending on the amount of underwriting risk of a plan and other factors. Under the formula, RBC requirements generally increase as a plan grows in size.

Premera believes that membership growth can create opportunities to realize efficiencies that can result in positive impacts on health care cost inflation trends. At the same time, in order to meet the company's growth potential, new capital is needed to support RBC requirements. Since 1999, Premera has experienced significant growth of over 260,000 members. Exhibit 3 below details Premera's membership from 1999 to 2001:

Exhibit 3: **Premera Membership 1999 to 2001**
(in thousands)

	1999	2000	2001
Insured members	996	1,117	1,133
Self-funded and administrative members[(a)]	193	241	317
Total membership	1,189	1,358	1,450

(a) Includes members served through the BlueCard program, National Accounts program and NorthStar administrative services members.

As Premera's membership has grown, its revenue has grown as well, raising Premera's statutory capital requirements. Since 1998, Premera's statutory capital position has increased by nearly $120 million as a result of operating income contributions to capital. Even with this increased funding, Premera's RBC ratio continues to remain in the 400% range. While well above state law minimums, continued membership increases will continue to put downward pressure on the RBC level. Access to capital will help improve Premera's ability to maintain its capital reserves at appropriate levels while at the same time allowing it to make the necessary investments it needs to further meet the market's and customers' demands.

Premera believes that opportunities for growth continue to exist in its current markets, as well as in markets that Premera does not currently operate. These opportunities, in conjunction with the rollout of the new Dimensions product, Premera's success in attracting large multi-state accounts and an expected turnaround in the overall economy of the region indicate there is more growth on the horizon. As this growth potential is realized, future capital to adequately support this growth will be necessary.

Meeting Regulatory Mandates

Health care continues to receive significant attention from government agencies, legislators and consumers. Many laws and regulations impose costly mandates on health plans, in some circumstances requiring millions of dollars in investment to bring computer systems and procedures in compliance. The most significant recent regulations impacting the industry include the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the Gramm-Leach-Bliley Act of 1994 and changes to ERISA regulations. In addition, state legislatures are mandating coverage for certain procedures and implementing state-level Patients' Bills of Rights, requiring further procedural conformity. Health plan efforts to ensure compliant technology systems and processes add costs to the system.

Premera is dedicating significant time and resources to maintaining operational requirements as dictated by regulatory mandates including HIPAA and Patients' Bills of Rights in Washington, Oregon and Alaska, as well as others. Estimates reported by Accenture in a November 2001 survey, predict that health plans with revenues greater than $500 million could spend between $30 to $60 million to become fully compliant with HIPAA guidelines. While expenditures related to future mandates are impossible to project, it is expected that there will be new regulations that will require additional capital investments to ensure compliance.

Maintaining Capital Stability

Health plans are continually challenged to maintain a strong capital position. First, health plans face statutory requirements that impose minimum RBC reserve levels. As mentioned earlier, the amount of required reserves is based on a formula that considers underwriting, business, credit and investment risk among other things. Maintaining reserve levels comfortably over the required levels is critical. Should a plan fall below the mandated threshold, it faces the risk of losing its license to offer coverage.

In addition, stable plans seek to maintain reserves in excess of statutory requirements. Recognizing this, the BCBSA requires Blue plans to maintain reserves in excess of state requirements in order to maintain their Blue license. Such reserve requirements give Blue plan customers the peace of mind that their health plan is financially stable. As a health plan's revenue and membership grow, it must have capital reserves to support that growth. Capital reserves used to maintain that stability are unavailable for funding strategic initiatives. As health plans maintain capital reserve requirements, they must seek other sources of capital to finance their infrastructure investments.

Regulatory changes can also impact the profitability of certain business lines. Examples of this seen across the country include mandated benefits and rating limitations. Furthermore, overall economic conditions may also create financial pressure on health plans, as evidenced by the recent recession. In these situations, losses incurred by health plans drain a plan's financial reserves, decreasing its capital position and challenging its capital resources for other initiatives. By having capital reserves over and above the statutory requirements, plans can better withstand such market fluctuations.

Premera's financial results were strongly impacted by losses in the individual market during the mid-1990s. As a result, Premera experienced four years of operating losses causing Premera to embark upon a turnaround plan designed to address the losses while refocusing the company on its mission, vision and strategy. This plan led to significant improvement in Premera's financial

position. After four consecutive years of operating losses, Premera reached an operating profit in 1999, and has continued to grow its operating income each year thereafter, as outlined below in Exhibit 4.

Exhibit 4: Selected Historical Financial Results 1995 – 2001
(Year ended December 31)

($ in millions)	1995	1996	1997	1998	1999	2000	2001
Revenue	$1,325	$1,446	$1,479	$1,575	$1,751	$1,999	$2,427
Operating income (loss)	($59.9)	($36.2)	($58.4)	($21.8)	$13.4	$13.7	$27.9
Operating margin [(a)]	(4.5%)	(2.5%)	(3.9%)	(1.4%)	0.8%	0.7%	1.1%

(a) Based on operating income (loss) as a percent of revenue.

Despite Premera's return to profitability, operating margins in the 1.0% range make it difficult to effectively fund Premera's full growth potential, without assistance from additional sources of capital.

C. Capital Options

In order to adequately fund needed initiatives, both for-profit and nonprofit plans continuously review their capital alternatives to determine the most effective way to finance those needs. All plans, regardless of corporate status, create capital through retained earnings generated from operating profits. Additional capital for investment can be achieved in part by implementing administrative efficiencies. Accordingly, Premera is committed to continue to realize efficiencies in its operations in the future. Other than administrative savings, generating additional capital through operating income can only be achieved by charging more for services and/or paying less for third-party vendor services. Premera recognizes that customers already face significant premium pressure and is sensitive to concerns about rate increases that impact affordability of health care coverage. At the same time, health care professionals are concerned that reimbursement levels for professional services are maintained at sustainable levels. Accordingly, Premera is seeking sources other than operating income to augment its existing capital.

Premera has reviewed the full range of capital enhancement alternatives and concluded that accessing the equity capital markets best serves its customers and the health care delivery system, while allowing it to remain a strong, independent local health plan.

Internally Generated Capital

Many plans generate retained earnings from operating profits, which can be used to fund ongoing capital requirements. While relying on retained earnings can be an attractive approach to funding, this approach alone may not allow enough flexibility to fund significant investments given the size of some larger capital projects. This becomes more of an issue when one considers the thin operating margins that are typical of health plans. For example, the 2001 average operating income margin for the BCBSA system was 1.3%. Operating margins at these levels make it difficult to effectively meet ongoing capital needs, especially in an environment with significant health care cost inflation. Finally, without additional sources of capital, plans may face financial instability resulting from profit downturns, whether caused by poor performance, an economic recession or a competitor's actions.

Premera's operating margins have been in the 1% range over the last three years. Regardless of whether it becomes a public company or remains a nonprofit, Premera's financial goals include improving its margin over time through realization of administrative efficiencies. Even with improved operating margins, lack of capital raising flexibility can present significant challenges. Internally generated capital does not provide the capital levels needed to support the company's growth potential. It also would not provide the flexibility needed to best position Premera to respond most effectively to the needs of the market place. For example, as premiums and membership continue to grow, Premera's capital position could be strained by the need to fund additional RBC requirements, as required by applicable state and BCBSA regulations. Furthermore, Premera's growth opportunities, which benefit all customers by spreading administrative costs over a broader base, may be limited without access to additional capital to support that growth.

Sale of Assets

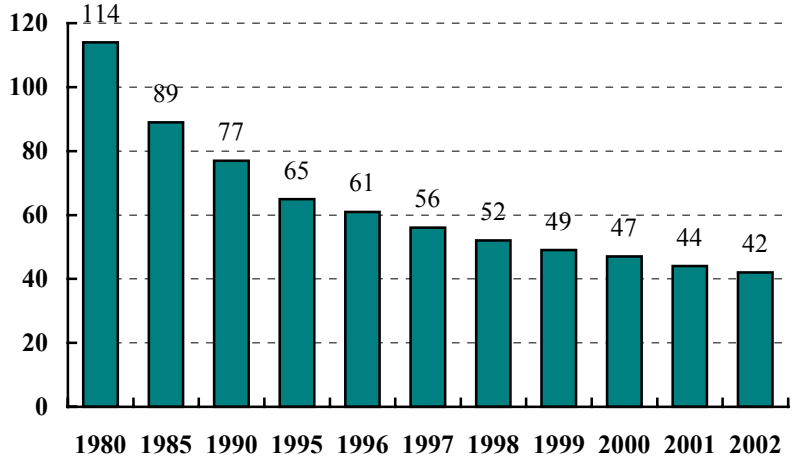
One option that can be used to raise capital is a sale of assets. In certain circumstances, a company is able to identify a subsidiary or a business unit that can be separated from the core business and sold to an interested party. This strategy results in a one-time capital infusion, with the specific amount depending on the value of the asset.

Premera reviewed the feasibility of selling certain of its assets, such as one or more of its business lines or operating subsidiaries. While this alternative could bring a one-time source of capital, it also would also likely sacrifice one or more core profitable business lines. This would be directly counterproductive to achieving the product scope, market presence, future growth opportunities and economies of scale that drive the need for capital. Furthermore, a sale of operating assets is contrary to Premera's goal of meeting the demands of the market, as all of its subsidiaries complement its core business. Finally, the amount of capital that could be generated by a sale of assets would most likely be insignificant when considering the opportunity cost of lost growth and market position.

Mergers, Alliances and Acquisitions

A merger or acquisition can create access to capital by enhancing a company's balance sheet through a combination with a better-capitalized partner. In addition, the combined company is larger in size, which leads to immediate opportunities to leverage costs. In some circumstances, operating efficiencies are gained through the consolidation of certain corporate functions that are duplicative between the merged companies. Many Blue Cross and Blue Shield plans have pursued mergers as a means to improve their financial and competitive positions. This is best illustrated by observing the reduction in number of Blue Cross and Blue Shield plans since 1980 in Exhibit 5 below.

Exhibit 5: Number of Blue Cross and Blue Shield Primary Licensees 1980 - 2002



Source: Blue Cross Blue Shield Association, 2002.

Premera considered whether it should pursue a merger or affiliation to augment its capital base and concluded that such a strategy is inconsistent with Premera's commitment to remain a local, independent health plan. It would also jeopardize its ability to achieve the mission, vision and strategy set out by the company. Mergers and affiliations, especially with another well-capitalized plan, often result in a loss of autonomy. In particular, where most prospective merger and affiliation partners are out-of-state entities, it would likely also result in a loss of local focus.

The following illustrates the limitations given the various types of merger or affiliation partners that exist:

- **Merger with a non-Blue, for-profit company.** This universe would include many plans with the financial ability to complete a transaction. However, such a merger would require Premera to convert to for-profit status, surrender the use of the Blue license and lose its independence and locally based management.

- **Merger with a for-profit Blue plan.** There are a limited number of for-profit Blue plans with the financial wherewithal to complete a transaction. In this situation,

Premera would be required to convert to for-profit status in order to complete the transaction and ultimately lose independence and locally based management.

- **Merger with a nonprofit Blue plan.** While this universe is somewhat limited, there are a number of Blue plans throughout the country with the financial wherewithal to add value through a merger. A merger of this sort would most likely result in a loss of Premera's autonomy as an independent, locally governed plan, given Premera's size and capital position relative to the universe of viable, nonprofit Blue plans. In addition, a merger with a nonprofit from other jurisdictions is subject to regulatory limitations that restrict the transfer of capital between the individual plans, thus limiting a plan's capital enhancement opportunities. Finally, multi-jurisdictional mergers and affiliations between nonprofit Blue plans have generated significant opposition from various quarters, often based on concerns about loss of local presence and control.

Given these options and their respective issues, the viability of a merger as a capital raising strategy is severely limited. Regardless of the availability of merger candidates, the primary reason against a merger is its inconsistency with the future independence of Premera. Premera has consistently affirmed its intent to remain an independent, locally controlled plan in order to fulfill its mission for its customers and achieve its vision in the marketplace. Mergers and affiliations, which lead to a loss of autonomy, are inconsistent with Premera's objectives.

Debt Financing

The most common form of debt financing is a commercial loan from a third-party lender, but can also include other debt securities that are sold in the public markets. Debt financings in some circumstances may be a viable way to raise capital to finance major expenditures over an extended period of time, furthering opportunities for future growth. However, in order for an

insurer to raise capital that can be counted toward statutory reserves, debt proceeds must be subordinated in the form of surplus notes.

Surplus notes are debt instruments that are treated as equity for statutory accounting purposes, due to certain regulatory restrictions that accompany the security. Insurers have used surplus notes as a way to raise limited amounts of capital and enhance a plan's statutory reserves, thereby freeing up other capital for current business initiatives. However, the amount of money that can be raised through surplus notes is limited by regulatory requirements and rating agencies, based on the issuer's financial position. Additionally, there are restrictions on the use of funds raised through surplus notes to fund reserve requirements, generally 15% of a plan's statutory capital.

Debt financing would be available to Premera through issuing surplus notes or through a loan from a third-party lender. Regulations governing surplus notes limit the amount of capital that could be raised, based on a company's capital position. Surplus notes would also need to be subordinated to the claims of other creditors, thereby increasing risk to the lender, resulting in higher interest rates. Given these restrictions, the amount of capital that could be raised using these instruments would be insufficient to make a meaningful long-term impact on Premera's capital position.

Issuing Stock/Equity Financing

Access to the equity capital market allows a plan to receive an investment from a third party in exchange for some portion of the plan's stock. These transactions can take place with private investors or on a larger scale through a public offering. Regardless of the size of transaction, the ability to sell equity securities creates ongoing access to capital, as well as the flexibility to offer additional shares for future capital, or for use as currency in an acquisition. Traditional stock offerings available to for-profit companies remain unavailable to Premera without a preceding conversion to for-profit status. This restriction is due to statutory limitations on traditional nonprofits that do not allow the issuance of stock.

Numerous Blue Cross and Blue Shield plans have seen the advantages of having access to equity capital and have pursued equity capital by converting to for-profit status. Exhibit 6 lists the plans that have already converted and those currently in the middle of a conversion process.

Exhibit 6: Converted and Converting Blue Cross and Blue Shield Plans

Company	Date
Anthem, Inc.	October 2001
Cobalt Corporation	March 2001
Trigon Healthcare, Inc.	February 1997
WellPoint Health Networks, Inc.	May 1996
RightCHOICE Managed Care, Inc.	August 1994
Pending Transactions:	
Blue Cross Blue Shield of North Carolina	December 2001[(a)]
Horizon Blue Cross Blue Shield of New Jersey	December 2001[(a)]
CareFirst Blue Cross Blue Shield (Maryland, D.C., Delaware)[(b)]	November 2001
Blue Cross Blue Shield of Kansas[(c)]	May 2001
WellChoice - Empire Blue Cross and Blue Shield (New York)	1994[(a)(d)]

(a) Date listed is the date when plan announced intentions to convert to for-profit status.
(b) In conjunction with proposed merger with WellPoint Health Networks, Inc.
(c) In conjunction with proposed merger with Anthem, Inc.
(d) WellChoice filed its Form S-1 Registration statement on August 30, 2002.

D. Summary of Capital Options and Conversion Rationale

There are limited capital options available to companies seeking to effectively fund their ongoing capital needs. For-profit health plans are at an advantage, given that they are not restricted from choosing any of the capital raising alternatives. Nonprofit plans have fewer options available, primarily due to ownership restrictions that result from their nonprofit status.

After reviewing its available capital alternatives, Premera has concluded that to be best positioned to achieve its mission, vision and strategy, it should remain an independent, Washington-based company with access to the equity capital markets. To access equity capital, Premera would need to restructure from its current nonprofit structure into a for-profit company.

In reaching this conclusion, Premera has considered the potential impacts that this would have on its customers, business partners and the health care delivery system. Access to the equity capital markets would allow Premera to fund investment needs and reserve requirements from sources other than operating income.

Premera's market strategy has distinguished it as a leading health plan in its region. The company believes its membership growth, sound financial performance and reputation for customer service demonstrate the viability of its business plan and strategy into the future.

III. WHY IS THIS GOOD FOR OUR CUSTOMERS AND THE HEALTH CARE DELIVERY SYSTEM?

Conversion from nonprofit status to for-profit status enhances Premera's ability to serve its customers and improve its financial stability by creating access to the equity capital markets. In addition to the Premera specific benefits previously discussed, the proposed conversion will also benefit the customers of Premera, the entire health care delivery system and the general public through:

- furthering Premera's ability to provide competitively priced, market-focused products;
- maintaining Premera's independent, local focus;
- increasing customers' peace of mind about the stability of their health benefit coverage;
- reducing the importance of premium increases for generating capital project investments; and
- creating significant funding for health initiatives in Washington and Alaska.

These benefits are discussed in more detail below.

A. Furthers Premera's Ability to Provide Competitively Priced, Market-Focused Products

Five years ago, Premera redefined its mission, vision, goals and strategy to become better focused on successfully providing a product that meets the demands of the market and our business partners. The core of that approach includes:

- being market responsive and relationship driven;
- offering products which allow flexibility and choice;
- developing and implementing care facilitation programs that support the delivery of cost-effective quality care;
- simplifying processes and increasing the ease of administration; and
- promoting increased administrative efficiency.

Premera has successfully responded to market requirements as evidenced by the strong demand for Premera's products and services. Premera has added over 260,000 members since 1999. Premera market surveys conducted over the past year also demonstrate high ratings for Premera from members, physicians and employer groups. For example:

- *Members.* Members rate Premera high (above 8 out of 10) on getting necessary medical care, enrollment and getting claims paid. Among managed care members, 6 of 10 give Premera the highest ratings (8, 9, or 10 on a 10-point scale), exceeding the national average of accredited health plans[3]. Nine of ten members give high marks to Premera for overall claims processing timeliness and accuracy.
- *Physicians.* Six of ten contracted physicians perceive Premera/LifeWise to be better or much better overall than other health plans.
- *Employer Groups.* Eight of ten Premera group clients say they would recommend Premera to other businesses, higher than Regence Blue Shield or Aetna, two of Premera's largest competitors.

Premera's focus on customer satisfaction will lead to future investments in product development and technologies to support the consumer-based strategy. Access to equity capital will enhance Premera's ability to make continued investments to offer quality products and services for which Premera has become known.

B. Maintains Premera's Independent, Local Focus

Premera believes that having close proximity to its customers is critical to understanding both the specific needs of its customers and the local market dynamics that impact the health care delivery system. Furthermore, Premera believes it can best serve its customers and their interests by remaining an independent, locally managed plan. As Premera considered its capital alternatives, it categorically rejected mergers or affiliations which jeopardize local autonomy and in turn, jeopardize the plan's ability to properly respond to local market needs and expectations.

Accordingly, the Board of Directors determined that creating access to the equity capital markets is the optimal way to meet the needs of its customers and fund its future growth, while maintaining Premera's status as an independent, Washington-based plan.

C. Increases Customers' Peace of Mind about the Stability of Their Health Benefit Coverage

Health plans are required by law to maintain minimum levels of capital to ensure financial adequacy. As a licensee of the BCBSA, Premera has additional capital adequacy requirements dictated by the BCBSA that exceed state law requirements. In a time when consumer confidence has been shaken due to several high profile business failures, it is more important than ever that health insurance plans meet and exceed state law requirements so the customers have the peace of mind that their health insurance provider will remain financially strong. Access to capital which will result from a conversion would augment Premera's capital reserves, further strengthening its capital position.

D. Reduces the Importance of Premium Increases for Capital Project Investments

As a nonprofit company, Premera finances its capital projects primarily through its operating profits, which are driven by increased premiums or reduced expenses. A reorganization would allow Premera to access the equity capital markets, which it has determined to be the most effective ways to raise capital to support its business plan. Having an alternate method to access capital would potentially reduce Premera's dependence on premium increases and retained earnings for funding of its capital projects and provide additional flexibility in the timing of its investments.

[3] The national benchmark is a 2001 aggregate score from NCQA for all lines of business using the same survey questions and form.

E. Creates Significant Funding for Health Initiatives in Washington and Alaska

Another significant outcome that benefits the health of all citizens of Washington and Alaska results from Premera's proposal to dedicate 100% of the initial stock on conversion to fund health initiatives in Washington and Alaska. This stock would be sold in the public markets to raise cash to fund health-related initiatives. Examples of the types of initiatives[4] that could be funded include:

- improving the availability of health care services for all citizens, including the uninsured and underinsured;
- supporting the education of health care providers;
- supporting medical, surgical and other scientific research aimed at making health care delivery more comprehensive, flexible and efficient; and
- supporting initiatives addressing short and long-term public health needs.

As outlined in Exhibit 7 below, Blue conversions around the country have led to the creation of sizeable endowments directed at improving the health of the communities where they are established.

[4] These purposes would be finalized after further discussion between Premera and state officials, taking into account input from interested members of the community.

Exhibit 7: Description of Endowment Value from Blue Conversions[(a)]

(Dollars in millions)

Company	Cash Monetizations	Current Market Value	Total Value
WellPoint Health Networks	$3,174.7[(b)]	$0.0[(c)]	$3,174.7
RightCHOICE Managed Care	152.0[(d)]	826.2[(e)]	978.2
Cobalt Corporation	0.0	565.5[(f)]	565.5

(a) Values shown do not correlate to potential value of Premera stock.

(b) Includes cash payment of $235 million at time of conversion, as well as proceeds from selling shares in November 1996, April 1997, April 1998, June 1999 and September 2000. All shares still held by Foundation following September 2000 sale assumed to be sold off at same price as shares sold in September 2000 (following the September 2000 sale, the Foundation owned less than 5% of WellPoint's stock and no longer registered shares).

(c) As of January 2001, the Foundation no longer owned any WellPoint stock.

(d) Includes cash payment of $12.8 million at time of conversion, as well as proceeds from selling shares in May 2001.

(e) Value of RightCHOICE shares owned by Foundation at closing of acquisition of WellPoint on January 30, 2002. Per the terms of the merger agreement between RightCHOICE and WellPoint, existing shares of RightCHOICE were exchanged for WellPoint shares. The market value of those shares as of September 17, 2002 was $1.043 billion.

(f) Market value as of September 17, 2002.

Source: Goldman Sachs, 2002.

The actual value of Premera's endowment would be determined by the market value of the stock at the time it was sold. Premera anticipates that there would be enough funding from the sale of its stock to create a lasting legacy with the ability to significantly impact health care initiatives throughout the region into the future.

IV. PREMERA COMBINED FINANCIAL PROJECTIONS AND ASSUMPTIONS

(Pages 40 through 55 and the Actuarial Opinion have been redacted from this version of Exhibit E-7 as it contains confidential information of the Company exempt from disclosure under applicable laws.)